



March 9, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Proposed Corporate Credit Union Regulatory Changes
(12 CFR Part 704)

Dear Ms. Rupp:

On behalf of the Ohio Credit Union League, we are filing this letter with the National Credit Union Administration to provide comments on its proposed corporate credit union rules, Part 704. The Ohio Credit Union League (OCUL) is a credit union trade association representing the interests of Ohio's 397 federal- and state-chartered credit unions and their 2.7 million credit union members. These comments were developed in coordination with the Ohio Credit Union League's Board of Directors and Government Affairs Committee.

We appreciate the opportunity to provide suggestions and feedback prior to the consideration of any final rules adopted...rules that greatly impact the future of the corporate system that has played numerous and critical roles in the success of the credit union movement over the past 25 years. Further, we appreciate and acknowledge the NCUA's immense level of work and activities to date in managing the difficult corporate stabilization issues, and its efforts to engage in activities necessary to ensure all in the credit union industry have an opportunity to voice concerns and recommend solutions.

Overall, OCUL supports NCUA's fundamental actions taken to address the corporate crisis and its "never again" mentality. We believe that NCUA is managing a difficult scenario of balancing the needs of corporate credit unions and natural person credit unions. OCUL believes that the corporate crisis was due to concentrations of credit risk, too much leverage, and too little capital. By acknowledging and learning from past mistakes, and nurturing principles that have made credit unions strong, OCUL is confident that there is demand and support for a corporate system in Ohio. While we support NCUA in taking decisive action, we also encourage NCUA to adhere to sound principles, including several identified in this letter.



Background/Summary of Proposal

In brief, key proposed amendments to Part 704 will require corporate credit unions to adopt new and additional safety and soundness practices, including the following:

- Higher capital ratios to be considered well-capitalized. There would be a 4% minimum leverage ratio (5% to be considered well-capitalized), 4% tier one risk-based ratio (6% to be well-capitalized) and 8% total risk-based capital ratio (10% to be well-capitalized).
- New Prompt Corrective Action categories established for mandatory supervisory actions as needed.
- New investment prohibitions and limitations, including a prohibition of investments in collateralized debt obligations and net interest margin securities, and would require that at least 90% of a corporate credit union's investments be rated by at least two ratings organizations. The proposal would also place limits on types of investments in any one investment type. Corporate credit unions would be banned from accepting any investment from any member or entity that exceeds 10% of its assets.
- Corporate credit unions would be allowed to borrow only for liquidity purposes and only for a maximum maturity of 30 days.
- Additional asset-liability management standards, including a maximum limit on the weighted average life of a corporate credit union's aggregate assets; established limits on cash flow mismatches; required minimum amount of cash or cash equivalents; and more.
- Corporate CUSO activities would need to restrict their services to brokerage services, investment advisory services, and other activities as preapproved by NCUA.
- Corporate governance restrictions. The rules would require all corporate credit union board members be a chief executive officer, chief financial officer or chief operating officer of a credit union or member entity. All senior officer and board member compensation would need to be disclosed. Board members could serve for no more than six years at a time; no person could serve on the board of more than one corporate credit union; and no more than one person from any one credit union or other entity could serve on the same corporate credit union's board.

Outline of Letter

Three key themes govern and outline the structure of OCUL's comment letter, including:

1. Need. There is a strong demand and support within the Ohio League's credit union membership for the continuation of corporate services and for Corporate One FCU (COFCU).
2. Principles. To ensure deep-rooted confidence in credit union executives, there must be a set of overriding notions that govern the foundation for proposed and enacted rules and practices, including safety and soundness, credit union ownership, governance, and more.
3. Cautions. OCUL identifies and encourages changes to specific concerns, including key areas that limit or damage opportunities for any well-run, value-adding corporate (like COFCU) and member credit unions.

I. Need

(Cooperation Works...The Need for a Continued Viable, Cooperative Corporate System)

The credit union system, including the corporate system, was built through a collaborative and cooperative process that, over the past 25 years, has provided unparalleled innovation, low cost products/services, and high service levels unavailable in the open market. Over the years, the commitment from within the industry created “common wealth” that has been shared among all credit unions – resources designed by credit unions and for credit unions, assembled together and used for the benefit of all participants. The cost savings and benefits derived over time have served credit unions and their members well. In our judgment, most Ohio credit unions wish to preserve, extend, and strengthen this cooperative approach.

Corporates provide services that are unavailable anywhere else in our cooperative industry. Without them, credit unions would be forced to look for these services in the for-profit arena. The size of most natural person credit unions limits their ability to negotiate competitive pricing and contract conditions. For most Ohio credit unions this would undoubtedly lead to decreased net income due to increased processing fees, increased cost of borrowing, and decreased investment yields. This decrease in net income will impact most credit union members; however, it falls heaviest on the members of smaller credit unions. These members are often in smaller, rural marketplaces with limited choices of financial service providers and in areas abandoned or underserved by for-profit institutions. Therefore, OCUL encourages that final rules governing the corporate credit union system provide the abilities to be multi-tiered, full service, member driven institutions that can compete and meet the service needs of its member credit unions.

In drafting of the final rules, we encourage NCUA to continue to recognize the powerful, long-term benefits of a dynamic, cooperative system that encourages flexibility and innovation moving forward. There is an abundance of shared responsibility for the financial problems besieging the corporate system today, but the difficulties were systemic in nature. There are many lessons to be learned and important rules to be adopted, but we encourage NCUA to not unnecessarily impair the future corporate system’s ability to effectively compete in the marketplace.

The vast majority of Ohio credit unions need, want, and benefit from services of the corporate system. Ohio credit unions, primarily members of Corporate One FCU (COFCU), have a strong appreciation for its contributions to the strength of the credit union movement, evidenced by a strong foundation of support and participation in COFCU over the years. Most Ohio credit unions fully support the notion that the corporate system (and COFCU) be afforded a fair opportunity for continuation under a new, reasonable, responsible set of rules...and will continue to provide business support should the rule changes permit the ongoing delivery of a strong value proposition.

Ohio credit unions have continually and strongly expressed the on-going need for affordable settlement services, payment systems, cash management solutions, image check processing, ACH origination and receipt, wires, ATM programs, Check 21 solutions, investments (especially short and medium term), and more. Steering credit unions toward their competitors (banks) is a long-term financial misstep and a lost opportunity to continued development of value-added products and services designed for the benefit of credit unions.

II. Principles

(Fundamental Values and Commitment to Stay on a Road to Success)

In defining the word “principles,” dictionaries use the following phrases: “A rule or code of conduct,” “habitual devotion,” “fundamental norms or values that represent what is desirable and positive for a person, group, organization, or community, and help it in determining the rightfulness or wrongfulness of its actions.” Governing the complexities of a corporate system, subject to outside economic and political winds (many times unforeseen), requires those who govern and manage to follow strict disciplines in order to prosper in good times and weather bad times. We encourage NCUA to adopt certain guiding principles that will provide a guide to corporate and industry executives, and that helps ensure the long-term stability of the corporate system. Detouring from these principles should raise red flags and strongly caution the industry to ensure all elements of risk are carefully and fully considered before moving forward.

Such principles should be rooted in the underlying causes of the corporate credit union system problems that credit unions are burdened with today. We suggest the following principles as the context in which such issues should be addressed:

1. *Full Transparency must exist in NCUA/corporate/credit union dealings.* Even the impression that there is less than full disclosure of processes considered or implemented, or decision-making activities are made behind closed doors without open dialogue, creates mistrust and doubt. We feel that NCUA generally takes great efforts to achieve this, but continued vigilance is always warranted.
2. *Adequate supervision must be provided by NCUA.* Fully trained NCUA field examiners and supervisors are critical in the identification of problems or concerns, and ensuring steps are taken to resolve concerns in a timely manner.
3. *Credit unions should own and govern its corporate system.* As stated in the introductory remarks to this letter, the fundamental strength of the credit union movement in the past and going forward is its cooperative powers and the strength and innovation it fosters. With new rules and controls in place, credit unions must decide what corporate business model works best. We applaud NCUA in its rule-making venue and approach taken to date.
4. *Credit union choice is essential.* OCUL does not support any form of artificial regionalization of the corporate system, and supports the current policy of permitting open fields of membership. We fully support the notion that competition drives innovation and price advantages, and that the lack of choice actually increases concentration risk.
5. *Safety and soundness is paramount.* Regulators, industry leaders, government, and credit unions all have to do their part to ensure that we rethink and reevaluate the activities and the financial backing needed to ensure that this corporate crisis does not happen again. OCUL supports NCUA’s “never again” standard in its proposed regulation. As proposed, NCUA and the industry must continually evaluate the sufficiency of corporate capital standards, the adequacy of prompt corrective action mandates, the level of appropriate concentration of credit risks, leverage activities, and more.

6. *Settlement/payment systems must be efficient, secure, and totally reliable.* Deep financial, reputation, and public confidence risks exist for the entire credit union movement if settlement/payment systems should become exposed to disruption or failure. Strategies for mitigating these risks must be continually explored to ensure that exposure is limited to its lowest possible level.

III. Specific Cautions

While OCUL believes that NCUA is working to strengthen the corporate system, we have concerns that several items in the proposed rules may 1) impede the corporate system's value proposition, 2) restrict the restoration of confidence levels needed in natural person credit unions' management and boards, and 3) deprive credit unions of opportunities to support strong corporate credit unions, like COFCU. OCUL recommends that appropriate modifications to the proposed rules be made in the following areas:

1. Time Period for Capital Ratio Attainment

As drafted in the proposal, the one-year window required to attain the risk-based capital ratios (i.e. 4% leverage ratio) will require corporates to bring in new capital or, at a minimum, convert existing membership capital accounts (MCA) to the new perpetual contributed capital (PCC) during a time when significant issues remain unresolved regarding legacy assets. Due to a lack of sufficient retained earnings at most corporates - and an inability to grow retained earnings at a rate required by the proposed rule, many corporates' only alternative will be to ask credit unions to convert existing deposits or contribute new monies as perpetual capital within this very short one-year time frame.

Given the uncertain economic environment and the current lack of specific plans on how the issue of legacy assets will be handled, the effect may encourage credit unions to withdraw deposits from their corporate, and exacerbate liquidity concerns. Therefore, OCUL encourages NCUA to support an extension of the proposed one-year time frame by an additional one to two years for corporates to attain required risk-based capital ratios.

2. Qualification of Board Members and Term limits

OCUL does not support the proposed rules under section 704.14(a)(2) to limit board representation to only individuals who currently hold the position of chief executive officer, chief financial officer, or chief operating officer. The proposal does not consider the value of potential candidates who may have many years of stellar experience and high levels of knowledge (Chief Investment Officers and Chief Risk Officers, for example), or those who may have many years of relevant experience and education in or outside the credit union industry - such as investments, risk management, accounting, payment systems, and more.

OCUL fully supports a requirement that corporates maintain and document that board members meet high standards according to written and documented policies...policies that should be reviewed by NCUA examiners. However, NCUA should not set strict boundaries that govern the individual choices of member-owned corporates. The proposed restrictions

do not consider the value of potential candidates as indicated above, and the limitations would be viewed by many as an intrusion into the corporate affairs of an organization.

OCUL strongly opposes the proposed term limits for board members under Section 704.14(a)(3), restricting term limits to six consecutive years. In general, corporates are very complex organizations, requiring significant time to develop the needed knowledge and skills required of any director. As a result of the proposed term limitations of six years, the average experience level of the entire Board of Directors will drop to three years – not close to the needed level of knowledge and experience needed for properly addressing complicated issues and planning for and executing long-range goals. Consequences of the new rule would also be felt in situations when a corporate is filling unexpired terms. As the proposal is currently written, it can have the effect of further limiting the number of years a director can serve in these cases to only four years or less.

At a time when the highest levels of expertise are needed, imposing term limits provides no value proposition in furthering corporates' abilities to best serve their membership. If NCUA feels that term limits are a necessity, we recommend that the period should be extended to 12 years.

3. ALM: Weighted Average Life of Investment Portfolio

Section 704.8(h) states that the weighted average life (WAL) of a corporate credit union's investment portfolio, excluding contracts and equity investments, may not exceed two years. Although this restriction was added to address credit and liquidity risks, these risks have been adequately addressed in other parts of the proposed regulation. OCUL agrees with the 2-year WAL restriction for the assets in the overnight and capital portfolios. However, we recommend 1) eliminating a corporate's term portfolio assets from the 2-year WAL calculation and instead require a maximum funding mismatch of one year for the term portfolio, and 2) that government-sponsored enterprises (GSE) and government-backed securities should be excluded from the calculation.

It is our understanding that the limitations placed on asset maturities or average life limitations may severely impact a credit union's ability to obtain term liquidity for asset/liability management purposes. This would result in credit unions ultimately having to look elsewhere for this service, such as through the Federal Home Loan Bank (requires a capital investment) and/or having to rely upon bank competitors, which would significantly raise costs and provide for uncertain availability of liquidity.

4. Permissible Activities

Section 704.11(e) states that a corporate CUSO must agree to limit its activities to 1) brokerage services, 2) investment advisory services, and 3) other categories of services as approved in writing by the NCUA and published on NCUA's website.

OCUL understands that the proposed rule attempts to limit the range of services a corporate CUSO may engage in to limit risk. However, in this case, there are fundamental problems and issues that we believe NCUA has not considered, requiring major changes or elimination of this rule in its entirety.

Fundamentally, the rule unnecessarily stifles how the credit union movement cooperates to address common challenges and opportunities by overly restricting corporate engagement in CUSO activities. Engagement by corporates provides CUSOs needed expertise and needed strength, and sparks innovation of competitive products and services primarily aimed at meeting the needs of the credit union movement.

Safeguards that surround CUSO activities are already sufficient without requiring the approval of “activities.” Section 704.11 already contains several points of control over the “safety and soundness” issues related to CUSO activities. In addition, a rule that permits an “activity” does not assure that it is a sound investment and/or that it will be operated in a safe and sound manner.

The list of permissible activities included in the proposed regulation is not representative of current corporate CUSO activities that are being operated in a safe, sound, and financially responsible manner. At minimum, the “approved” activities should be expanded to include shared services, item processing, and shared/cooperative data processing.

Section 704.11(e), as written, overly restricts corporate CUSO activities, provides no real guidance on what is considered to be acceptable activities, and does not outline the approval process. If these issues are not adequately addressed in the final rules, OCUL respectfully recommends that Section 704.11(e) be eliminated.

5. Disclosure of Executive and Director Compensation

Section 704.19 requires corporate credit unions to annually prepare and maintain a disclosure of the compensation of each senior executive and director.

OCUL generally supports the requirement of full disclosure of senior staff compensation which parallels with current practices within other financial institution and nonprofit sectors. OCUL requests that NCUA provide additional guidance in the final rules, further defining “Senior Executive Officer (SEO).” The definition of SEO is very broad as it relates only to titles and does not address the concept of “operational control” as has been the NCUA’s long-standing determination criteria for a SEO.

OCUL recommends that section 704.19(a) include the phrase “senior executive with significant operational control” to focus the disclosure on the senior executives of the organization. A corporate may have several individuals within the complex environment of a corporate credit union, some that meet the significant operational control test, and some that do not.

Conclusion

The Ohio Credit Union League appreciates the bold efforts that NCUA is taking in solidifying the corporate system. NCUA plays a key role in the future success of this innovative system, conceived and nurtured over the past two and a half decades and representing an important asset of the credit union industry.

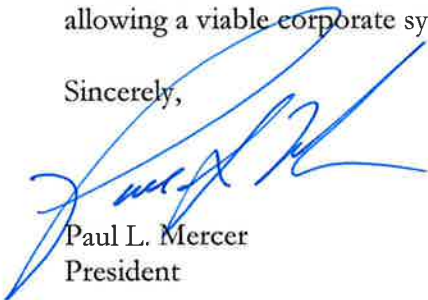
We urge the NCUA Board to use caution and vision in balancing 1) the needs of credit unions, 2) the future potential of a cooperative and innovative corporate system, and 3) the needed financial restraints and controls necessary to ensure that the present problems are not repeated.

While we agree with the core steps and actions recommended by NCUA in the proposal to strengthen the corporate system, we do not believe that the corporate failures were simply the result of a business model that failed. Primarily, the system failed from a tsunami of factors that few if any predicted. The problems were systemic with many to blame. Many financial models throughout the United States faltered in the midst of a great recession and an unparalleled financial markets dislocation.

Important changes are needed, but at the core, the corporate system and its cooperative principles have provided immense system benefits both operationally and financially. The OCUL urges NCUA to use its powers and this opportunity to strengthen the corporate system, recognizing these core benefits. Many credit unions need and want their corporates. We are confident that Ohio credit unions will continue to fully support Corporate One Federal Credit Union.

In closing, the Ohio Credit Union League thanks the NCUA Board for the opportunity to provide our concerns and recommendations regarding this critical rulemaking process. We urge the Board to strike an effective and fair balance between preventing a repeat of the corporate crisis and allowing a viable corporate system to thrive.

Sincerely,



Paul L. Mercer
President

Cc: Board of Directors
Government Affairs Committee
Small Credit Union Success Task Force
Credit Union National Association